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Letter dated 15 May 2002 from the Secretary-General to the President of the Security Council

I have the honour to convey the attached communication, dated 14 May 2002, which I received from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina (see annex).

I should be grateful if you would bring it to the attention of the members of the Security Council.

(*Signed*) Kofi A. **Annan**

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Annex

Letter dated 14 May 2002 from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

I have the honour to transmit to you the twenty-second report on the activities of the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina. This is also my final report. I would appreciate your making this report available to the Security Council. I would like to thank you again for your support and for our fruitful cooperation during the three years of my mandate.

(*Signed*) Wolfgang **Petritsch**

Enclosure

Report by the High Representative for the Implementation of the Peace Agreement to the Secretary-General

20 February-7 May 2002

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit reports from the High Representative in accordance with annex 10 of the Peace Agreement and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present the twenty-second report.

I. - Introduction

1. This is my final report to the UN Secretary General before my term as High Representative ends on 27 May 2002. Therefore, I am taking the liberty of using this report not only to update you on events since 20 February, the date of my previous submission, but also to assess and report on developments during my mandate as a whole.

2. In order to do this I will first discuss the political and security environment, which underpins all peace implementation activities in Bosnia and Herzegovina (BiH). Then, I will continue with an assessment of progress in the three inter-related priority areas defined by the last Peace Implementation Council (PIC) ministerial Conference which met in Brussels in May 2000, ie. institution building, return, and economic reform. Next, I will discuss the fourth priority area, rule of law, which was added by the PIC Steering Board at its meeting in December 2001. These priorities also correspond to the four Task Forces (TFs), which form the basis of my plan for streamlining the work of the International Community (IC) in BiH.

3. I believe that, thanks to the efforts of the IC in BiH, the last three years have been marked by the decline of nationalism and the strengthening of tolerance and multi-ethnicity. Throughout my mandate, I have worked to encourage domestic ownership, consolidate BiH's statehood, and improve the social, economic, and cultural condition of its citizens.

II. - Political Environment

4. In general, I would divide my three-year term as High Representative into two parts. The first part, which lasted for about a year and a half, was marked by robust, intensive, and above all, direct engagement in all aspects of political life in BiH. During that period, I had to remove –under my GFAP Annex 10 powers- around 70 politicians, among them the Croat member of the BiH Presidency, a cantonal governor, several ministers and a number of mayors, for obstruction of the peace

implementation process. Because of persistent nationalist obstruction of essential legislation in the BiH Parliament, I had to impose laws on a wide range of issues, necessary for strengthening the State institutions, sustaining returns and reforming the economy.

5. The second part of my term was marked by efforts to establish partnership with the non-nationalist forces that came to power after the elections of November 2000, and to show them that they, too, are responsible for the future of BiH. During this second phase, BiH made significant strides towards a progressive transfer of ownership to its citizens and institutions. Politicians in BiH are now more capable of independent problem-solving and decision-making, as demonstrated by the passage of the Election Law in August 2001 and, above all, the negotiations on Entity constitutional reform which culminated in the 27 March 2002 Mrakovica-Sarajevo Agreement. (This issue is discussed in greater detail later in this report.) The Council of Europe (CoE) provided important recognition of BiH's progress when it granted the country full membership on 24 April 2002.

6. Developments such as CoE accession highlight the fact that BiH statehood is no longer at issue. Although its citizens sometimes still have difficulty viewing their country with pride and confidence, this will change as the IC's institution-building efforts begin to bear fruit and the State begins to deliver benefits. Also, since the establishment of democratic regimes in Croatia and the Federal Republic of Yugoslavia (FRY), the country is no longer under any serious external political or military threat. In this regard, the last year has been characterized by a series of events including the exchange of ambassadors between BiH and FRY and a number of high-level parliamentary visits from both FRY and Croatia.

7. As said in my 19th Report, the Republika Srpska (RS) and FRY signed an Agreement on Special Parallel Relations (SPR) on 5 March 2001. Although the concept of "special" relations between an Entity and a neighboring country is an outdated concept, such an agreement is a right of the Entities, in conformity with the General Framework Agreement for Peace in Bill (GFAP). Nevertheless, I ensured that the agreement's text and spirit fully respect BiH's sovereignty and territorial integrity. My Office has a supervisory role in the agreement's implementation and is involved in the drafting of its annexes. Moreover, I insist with the governments of neighbouring countries -and with those in BiH at State and Entity level- to concentrate on state-to-state relations.

8. The overall positive developments in the region influenced the results of the November 2000 Elections and had major impact on the nationalist parties of BiH. Still, during my mandate it was necessary to face down religious and nationalist intolerance, most blatantly over the Croat declaration of "self-rule" on 3 March 2001. As detailed in my 19th report, because of this declaration, I had to remove Ante Jelavic, the Croat member of the BiH Presidency and President of the nationalist HDZ party, from his positions, for personally leading this violation of the constitutional order. In April that same year, I appointed a Provisional Administrator

for Hercegovacka Banka, which acted as the financial backbone of the HDZ-led illegal parallel structures. The investigation into this bank is continuing and, in April 2002, I decided to extend the term of the Provisional Administrator for another year.

9. The hard-line leadership's failure to establish the Third Entity has led to a crisis in the HDZ. At first, Jelavic and his cohorts refused to step down from their leadership positions in the party, even though that meant they could not register for the 5 October 2002 elections. But, as of 4 May, Jelavic and his associates resigned. Although I welcome the resignations as a sign that the majority of HDZ members realize that the pursuit of a Third Entity is a dead-end, it is too early to say whether or not the party will undergo a true process of democratization.

10. Change is also taking place among the nationalist elements in the RS. Although the Serb members of the BiH Parliamentary Assembly still often obstruct legislation and slow down efforts to strengthen the State and enhance its competencies, there have been some welcome signs of shifting attitudes. On 12 December 2000, in my presence, the SDS leadership endorsed Dayton, along with all previous PIC Declarations, and committed the party to full cooperation with the IC. Although they have not fulfilled all these commitments, there has been significant improvement, and in December 2001 they barred indicted war criminals from membership in the party. They also participated actively in the 2002 constitutional reform process, and accepted the Mrakovica-Sarajevo Agreement, including the provision that positions in the RS government, legislature, and judiciary must be given to Bosniacs and Croats. Such a development would have been difficult to imagine when I took on the role of High Representative in August 1999.

III. - Institution Building

11. Under the guidance of the PIC, I have placed a great deal of emphasis on strengthening State institutions in BiH. In the last three years, we have seen the Presidency transform itself from an institution whose members would not be seen in public together to a fully-functioning institution that leads BiH on a number of issues including defence and security policy. The Council of Ministers (CoM) has also become a functioning, hard-working and pragmatic cabinet; in 2000, it doubled its membership from three to six ministers. It is now the leading State institution in the promotion of key State-building legislation. In addition, the State Border Service (SBS), the Public Broadcasting System (PBS), the Communications Regulatory Agency (CRA), and various economic institutions such as the Institute for Standards and the Institute for Statistics have been established and are making a tangible difference to life in BiH. The IC has been united in its message that a functioning State brings real benefits to its citizens.

12. Establishing and developing State institutions supported by an effective, merit-based civil service and placed on a sound financial footing is key to the sustainability and long-term stability of BiH. BiH has too much bureaucracy and too little service. The object of the Civil Service Law, adopted by the CoM in February 2002 and which I

hope to see in force by the end of my mandate, has been to create a cadre of civil servants at the State level who will be selected on the basis merit, and whose loyalty will be to the State and the citizen rather than to particular party or ethnic groups.

Constitutional Reform

13. On 11 January 2001 I issued a Decision restructuring the Constitutional Commissions in the Federation and the RS Parliaments, and giving them new competencies. Thus began the far-reaching process of preparing proposals for the amendment of the constitutions of both Entities and the protection of the rights of constituent peoples. I am pleased to report that these constitutions have been amended in line with the four partial Decisions the BiH Constitutional Court passed in 2000. The negotiations of leaders of the main BiH parties have been successfully concluded under my auspices with the 27 March Mrakovica-Sarajevo Agreement. It contained the key elements for the implementation of the text and the spirit of the Court's Decision on the constitutionality of Bosniacs, Serbs, and Croats in both Entities.

14. The text of the 27 March Agreement has been respected in full by the Entities in the changes to their Constitutions. These amendments have been to the largest extent passed by the Entity Parliaments and only a few elements had to be imposed in my Decisions of 19 April 2002. I had to correct three amendments in RS and to complete the parliamentary procedure in the Federation, as the amendments did not secure the mandatory two-thirds majority in the lower House. I also imposed several amendments to the BiH Election Law. Hence, elections of the main BiH institutions composed in line with the constitutional amendments can be held as scheduled on 5 October 2002.

15. These constitutional amendments demonstrate the evolutionary potential contained in the Dayton Peace Agreements and should further help to achieve a true multi-ethnic society within which the return of the victims of the BiH war can be effectively established.

Security and Defence

16. The tragic events of 11 September in the US highlighted the need for strong State institutions to combat terrorism. As mentioned in my last update, the BiH authorities demonstrated their commitment to global action by working with the IC to establish the Coordination Team in the Fight Against Terrorism and pass the five laws comprising the Citizens Identity Protection System (CIPS). I am pleased to report that the commercial contract to implement the system was signed by the BiH Ministry of Civil Affairs and Communications on 30 April 2002. In addition to providing a state-of-the-art system for registration and issuance of identity documents, essential tools in the fight against terrorism, organized crime, and illegal migration, implementation of the project may ultimately encourage foreign governments to ease visa requirements for BiH citizens. The project will also be self-financing, providing an important source of revenue—and thus, stability and independence—for the State. I hope that efforts to establish a State-level police force will also contribute to the fight against terrorism and other transborder crimes.

17. Security and defence institutions are key elements of the State, and there have been several significant developments in this regard during my tenure. On 11 May 2001, the BiH Presidency approved a ground-breaking State Defence Policy Document, which incorporates a military doctrine based on defending the integrity of the State of BiH as a whole. The expanded Standing Committee on Military Matters (SCMM) has made significant progress in drafting a vital strategic framework document, the BiH Security Policy. This framework is being developed by a CoM Working Group under the supervision of the BiH Presidency and should be ready for adoption in June 2002. The on-going effort of rightsizing the Entity Armed Forces, undertaken by the OSCE, and SFOR, in close coordination with the International Financial Institutions, will be crucial to the establishment of a practicable defence policy in BiH.

18. One issue which clearly demonstrates the nexus between institution building, returns, and economic development is demining. In October 2000 I had to remove the three BiH Demining Commissioners, as the administrative structures of the de-mining operations were tainted with systemic corruption. I am glad to report that, following these removals, confidence has fully returned among donors. On the legislative field, on the 12 February 2002 the first Demining Law was adopted at State Level. The Law provides the authority for the creation of the State government structure to administer, manage and control demining activities in BiH. This year for the first time the BiH and Entity Governments have allocated more significant funds for demining from their budgets: a total of 2.6 M KM (1 Euro = 1.95 KM) for the BiH structure. This is a first step towards the Government taking over all the running costs of the BiH demining structure by 2004 as planned.

Media Development

19. The development of an independent media, free of nationalist bias, was one of the priorities of the IC during my tenure. The restructuring of the BiH public broadcasting system achieved an important benchmark on 7 May 2002 when the countrywide PBS news was launched. This was a significant element in the implementation of my Second Media Decision of October 2000. Although there is still much work to be done in the restructuring process, the development of the all-important legislation for the new system is nearing its completion and I am determined to have this in place before the end of my tenure.

20. In January 2002, my Office took over the Free Media Help Line project from the OSCE. This confidential telephone service provides assistance to journalists and media outlets in the event of threats, intimidation or interference against them. The implementation of the Freedom of Access to Information Act has begun at both state and Entity levels. The Act on Protection against Defamation is in force in RS but is yet to be adopted by the Federation parliament.

21. The CRA has successfully completed the second phase of the licensing process that commenced in October 2000. Assessing the key criteria of programme content, financial viability and technical capability enabled the CRA to assess each station

objectively and to grant long-term licenses to the most successful broadcasters in BiH. At the same time the CRA was able to reduce the excessive number of broadcasters, thus enhancing the economic viability of the media market. Out of 258 radio and TV stations, 71 % succeeded to get a long-term license.

Human Rights Institutions

22. My Office has supported the Annex 6, 7 and 8 institutions and, throughout my tenure, this has resulted in a significant increase in compliance with the decisions of these Human Rights Institutions to an implementation rate of 75% in the RS and 92% in the Federation. In particular, soliciting domestic financial and political support and aggressively addressing non-compliance has resulted in an increase in implementation of the BiH Human Rights Chamber decisions from 10% in early 1999 to the current 79%. With respect to Ombudsman cases, whilst progress continues to be made, the overall situation as regards compliance in the RS remains unsatisfactory.

23. On 21 December 2001, as outlined in my last report, the Presidency of BiH appointed five new members of the Commission to Preserve National Monuments (three from BiH and two internationals). In order to eliminate the political and administrative obstacles to the reconstruction of monuments demolished during the war, on 8 February 2002 I issued Decisions by which the Entity Ministries of Urban Planning, rather than municipal authorities, are responsible for issuing the relevant permits.

Srebrenica

24. On 11 July 2001, on the 6th anniversary of the Srebrenica massacre, some 3000 relatives of the victims and several international and domestic officials, including myself, attended a commemorative ceremony in Potocari. At the site that I had designated in my Decision of 25 October 2000 for a memorial and cemetery for the victims, a marker stone was unveiled. The Foundation of Srebrenica/Potocari Memorial and Cemetery (established by my Decision of 10 May 2001) continues to work with the Family Associations to implement the development of the designated site. I issued these Decisions because burying the victims of Srebrenica according to the proper rites and customs, and honoring their memory with dignity is a moral obligation. This commemoration is also an integral and indispensable part of BiH's postwar recovery.

Education

25. During my mandate, a number of international organisations (including the OHR) and many NGOs have tried to make a positive impact in the field of education, but have encountered strong political resistance. It has become clear, though, that the inadequate education sector in BiH constitutes a severe problem for the normalisation of the country's society and economy and that a serious interventionist effort of the IC has to be undertaken.

26. Two agreements concerning the removal of objectionable material in textbooks, signed in 1999, had limited effect and were not fully implemented. The Entity Ministries signed a new textbook agreement in December 2001, which is now being

implemented. Furthermore, in March 2002, under OHR auspices, the RS and Federation Education Ministers signed an Interim Agreement on the educational rights and needs of returnee children BiH. The Agreement stipulates that all children in both Entities will be taught all general subjects on the basis of the curriculum wherever they are currently living or wherever they and their families return to live. On higher education, I would like to underline the signature of a letter of intention by both Entities on 16 April 2002 to implement the principles and norms of the Bologna Declaration, whose goal is the harmonisation of the whole higher education sector throughout Europe.

International Criminal Tribunal for Yugoslavia (ICTY)

27. My Office has continued to work closely with ICTY to pressure the relevant authorities of BiH, especially those of the RS, to co-operate more efficiently with the Tribunal. Despite the adoption of the RS Law on Co-operation with the ICTY on 17 October 2001, the level of co-operation remains poor and RS authorities have yet to arrest, or facilitate the arrest of, a single ICTY-indictee.

28. In early 2002, I appointed a group comprising four experts in the field of war crimes prosecutions and the judicial system of BiH to draft a report on the future of domestic war crimes prosecutions in this country. The report will address what would need to be done if future domestic war crimes cases were to be tried in the soon-to-be-established Court of BiH and/or in other domestic courts. The consultants and members of my Office have had extensive discussions with domestic authorities including the judiciary as well as international agencies involved in the matter, particularly the ICTY and other UN bodies which are also in the process of drafting related reports to be submitted to the SG. My overall strategy will ensure that ICTY's current concerns with the BiH judicial system with respect to war crimes prosecutions will be addressed, and our offices will continue to work together to ensure that domestic war crimes prosecutions are expedited and meet high professional standards.

Brcko District

29. Following the arbitration award from 5 March 1999, the District of Brcko was officially proclaimed on 8 March 2000. In the last two years the District has been a leading region of BiH in multiple fields: property law implementation, refugee return, economic and educational reform, etc.

IV. - Return

30. Clearly, the question of returns cannot be viewed in isolation. As noted above, institutional issues such as the quality of human rights, security, and legal protection can all affect the very practical decisions of real people to return home. Still, there has been significant improvement on returns in the past three years. When I took office, in 1999, the rate of return was such that the Federation process would have taken at least another 22 years. In the RS, it would have taken another 40 years. By 2001, UNHCR registered the return of 92, 061 people to their pre-war homes in areas where

their ethnic group is in minority. In contrast, the year 2000 -which was declared then a breakthrough year- saw only 67,445 of these "minority" returns. Figures this year show an increase greater than 20% over the record 2001 figures. Thus a similar increase in overall return can be expected at the end of this year. If this rate is maintained - and I believe it can be maintained - mass return will be completed by 2004. This will be a historic achievement

31. The State Commission for Refugees (SCR), co-chaired by UNHCR and the State Ministry for Human Rights and Refugees (MHRR), in which my Office regularly participates, has established its value as an excellent forum for efficient coordination between the State, the Entities and the IC. The appropriate ministries of the RS, the Federation and Brcko District engage seriously, and in a constructive manner, in joint discussions of strategy, funding issues, and, in particular, joint activities. The Federation and the RS have become important donors to reconstruction and return-related projects. Under the leadership of the MHRR, the SCR has embarked upon an initiative for joint projects according to common beneficiary criteria, to which both Entities and State will contribute funds. This can be viewed as a significant first step towards a common policy on return.

Property Law

32. Through a series of property-law Decisions that I issued starting in October 1999, loopholes allowing local officials to drag their feet were closed, and the legal provisions governing the repossession of apartments were made more effective. The first imposition in October 1999 marked the beginning of the international push aimed at ensuring the enforcement of citizens' rights to the repossession of their apartments, houses and other property, which is a precondition for return, within an acceptable time frame. A month later, on 29 November, I dismissed public and housing officials who obstructed the implementation of the laws, as part of a package of 22 removals. Other international activities included the establishment of the inter-agency Property Law Implementation Plan (PLIP) cell in Sarajevo (OHR, UNHCR, OSCE, UNMIBH and the Commission for Real Property Claims), and of the country-wide PLIP field network. The PLIP cell supervises and co-ordinates the implementation process and sets the strategic goals, while the network translates this into concrete action at the local level.

33. On 9 March this year the RS issued an instruction setting up commissions which will review illegal allocation of apartments and their subsequent privatisation. Following this, on 16 April 2002, I was able to issue two Decisions lifting the freeze on the RS law on socially owned apartment privatisation, previously imposed by me in December 2001. The freeze had affected the privatisation of apartments to which new occupancy rights had been issued after 1 April 1992. A similar freeze is in place in the Federation, and remains so, though talks are ongoing with the its Ministry of Urbanism.

34. According to PLIP statistics, as of the end of March 2002, the Federation issued decisions on over 80% of all claims received, and resolved over 51% of these claims.

(As a result of new claims filed this year, following my amendments to the property laws of December 2001, the Federation claims total has risen to over 141,000, affecting the implementation rate.) The RS has issued decisions on 55% of all claims received, and has resolved 38% (though this improved implementation rate results partly from the withdrawal from the PLIP statistics of claims filed for destroyed properties). Brcko District has also issued decisions on 55% of claims filed, and resolved 47%. Over all, in the whole of BiH, decisions have been issued on approximately 70% of claims made to date, while approximately 46% of all claimants have been able to repossess their property. While progress remains uneven, particularly in the RS, the crucial 50% mark should be reached this summer.

V. - Economic Reform

35. A strong economy is a disincentive for renewed violence and separatism, just as it is an incentive for returns. Privatization alone is not enough; foreign investment, export markets and a strong banking system are all essential. My time as High Representative has served to reinforce my belief that reactivating the economy, carrying out the necessary judicial reform, fighting corruption, and establishing transparency in government and business are closely linked to one another.

36. Moving BiH "from Dayton to Europe" in economic terms means "from Donations to Investments". While at the beginning of my term the infrastructure rehabilitation reached a peak, the necessary long-term reform package to restore the economy had only begun to pick up steam. Ten years after the other economies in Central and Eastern Europe, BiH started its own transition from a planned to a market system. Without "leapfrogging" the more conventional transition experiences, this backlog can not be overcome. The conclusions of the 2000 Brussels Conference stressed this urgent need for structural reforms, whose strategic aim is the functional integration of a country that had been deeply divided. A fully functional market economy needs efficient institutions setting the framework for economic actors - the logic of a single economic space, of competition and foreign trade requires these efficient market-regulating institutions at the State level. Several of my Decisions, in particular the package on standardization and accreditation institutes as well as the CRA, and the constant efforts of the IC to push state level legislation were aiming for this goal.

37. Two years after the Brussels Conference, the macro economic figures indicate an overall positive picture in BiH. Unfortunately, many potential elements of instability are still present. Following the war, seven years of strongly positive real growth rates were achieved in BiH, mainly fueled by international donor contributions and credits from international financial institutions. In the last three years an upswing of domestic and foreign private investment has been realized and BiH is slowly overcoming "donor dependency". A predictable investment environment was supported by price and exchange rate stability, based on the successful introduction of the Convertible Mark already in 1998 (linked to the DM and now to the Euro by a currency board) by the Central Bank of BiH.

38. In contrast to the positive macro-economic situation, most of the structural indicators perform far below their potential - the unemployment situation has proven particularly intractable. The number of jobs in the official economy has stayed the same during the last three years. Decreasing employment numbers in the huge industrial complexes were offset by some new jobs in the emerging private sectors, but a considerable component of the job creation stayed in the informal sector/gray economy. This phenomenon has been observed in all transition economies, but was especially strong in countries with weak public structures – e.g., where tax, customs and social security administration reforms could not keep pace with the new private sector developments.

Transport

39. Despite the major wartime damage to the roads, railways, airports and waterways, estimated some 650 million USD for reconstruction, significant progress toward restoring BiH's transportation infrastructure has been made. Significant accomplishments include basic reconstruction of the rail and road network, and an agreement between BiH, Croatia and FRY on the rehabilitation and management of the Sava River Basin.

40. There has also been major progress in civil aviation during my tenure, as demonstrated by the signing of an agreement by BiH with the Central European Air traffic services on 14 September 2001; an agreement with Croatia Control Limited to provide air traffic control across the country from 27 December 2001; the deployment of the SBS to Banja Luka and Mostar airports, and the establishment of a Search and Rescue Service. The handover of BiH's airports to domestic civilian control is an important and highly visible sign of normalization.

Telecommunications

41. During my three years as High Representative, my focus has shifted from the reconstruction of BiH's telecommunications system to its restructuring. My Office has been working for the establishment of a modern legal and regulatory framework in the telecom sector as a precondition for privatization and full competition. Two milestones have been set in this respect: first, the November 2000 adoption of the telecom policy setting out the various steps towards privatization and full competition and, second, the March 2001 establishment of the CRA, an independent regulator for telecommunications and broadcasting. Unfortunately, the tender for the third GSM licence, which would have introduced competition in the mobile phone market, was canceled on 31 July 2001 after two international bidders withdrew their applications and differences developed between the CoM and the CRA concerning the bidding process.

Social Sector

42. During the last three years a major effort was put forward by the IC and my Office on the reform of the social security system. Several major donor programs were implemented and supported and speeded by my Decisions. The Decision imposing the Federation Law on Pension and Disability Insurance Organization, provided a

framework for the merger of the Sarajevo and Mostar pension funds (December, 2000), thus establishing a single pension fund in the Federation with the goal of eliminating parallel structures, improving efficiency and transparency in this sector. Additionally, a rationing mechanism in the event of insufficient funds for payment of full pension amounts was introduced. The majority of the provisions of this law were implemented by January 2002 when the new Federation Pension Fund began operating and paying pensions.

43. My Decision imposing the Law on the Job Placement and Social Security of the Unemployed in the Federation established the Federation Employment Institute and Cantonal Employment Services. The goal was to abolish Croat and Bosniac parallel structures, reform inefficient employment bureaus, and introduce accountability and transparency in a system that was a major source of corrupt financial practices. The implementation of the Decision is currently ongoing.

Tax and Fiscal Structure

44. Since the payment bureaus had a monopoly over domestic transactions and did not operate in a transparent way, and in order to fulfill PIC and EU Road Map requirements and qualify BiH for membership in the CoE, I issued a Decision to enable the dismantling process to begin. The Payment Bureaus were abolished in January 2001 and their transactional operations were transferred to commercial banks.

45. Since 1999, a number of steps have been undertaken for the establishment of the single customs space in BiH. These measures include the unification of the tariffs applied in BiH, the discontinuation of the preferential treatment regimes with neighboring countries by the Entities, adoption of various by-laws by the Government, and my Decision to impose the Customs Policy Law in December 2000. (This law was subsequently adopted by the Parliamentary Assembly in March 2002.) Now, BiH has a single customs space and the customs tariffs are applied evenly across the country. The next desired step is the establishment of a Single Customs Account, leading in the end to a unified customs Administration.

Banking and Finance

46. Following the abolishment of the payment bureaus, one area of particular importance – and notable success – has been that of the banking and finance sector. After a slow start in the effort to consolidate the proliferation of banks, many of which were operating on shaky financial bases and with questionable fiduciary disciplines, the privatization and liquidation process is nearing the final stages and should be completed by the end of 2002. In addition, a draft package of comprehensive banking reforms has been completed and is entering the legislative process.

47. In 2001, major strides in reestablishing depositors' confidence in the banking system were made with the establishment of Deposit Insurance Agencies in both Entities. To increase the efficiency and effectiveness of these Agencies and their coverage of

deposits, both Entities have agreed to merge them into a single, state-level agency operating under the umbrella of the BiH Central Bank.

48. With the privatization process now in full swing and increasing numbers of companies registered with the Entities' Securities Commissions, 2002 has seen the advent of stock exchange operations in both Sarajevo and Banja Luka. This embryonic start represents an important component of BiH's transition to a market economy.

Privatization

49. In the course of the past three years, the privatization process has gone through important successive phases, as first the legal framework had to be put in place, then my Office had to intervene to support the efforts of the State Agencies and the IC to set up the ad hoc institutions necessary to effectively start selling State enterprises. We are now in the third phase, which involves the actual sale of the remaining State-owned portion of enterprises. This is by far the most difficult stage and it will probably be the longest one. Three years from the start of the whole process, 60% of small scale, 40% of large-scale and 15% of strategic enterprises have been sold. The next step is to attract solid foreign investors into the country to sustain the economic recovery, foster employment and develop export activities.

Stability Pact

50. The Stability Pact, at its launch in Sarajevo in July 1999, was seen as an important mechanism for the realization of the much-needed benefits of enhanced regional cooperation. BiH had a late start in taking advantage of this mechanism, with her full participation only coming into effect after the creation of the Ministry of European Integration and the positive changes that came with the November 2000 election. Since 2000, BiH has become increasingly active in all-important Pact activities including such areas as trade liberalization, investment environment enhancement, refugee return, and combating organized crime and terrorism.

Succession Agreement

51. Under my separate mandate for the Socialist Federal Republic of Yugoslavia's (SFRY) succession, I mediated the final round of the negotiations on this issue. The process concluded on 29 June 2001, when I witnessed the signature of the Agreement that provided for the distribution of the SFRY's rights, obligations, assets and liabilities.

VI. - Rule of Law

52. The IC in BiH has made significant strides toward police reform. UNMiBH/IPTF is managing, among other things, to reduce the number of regular police forces, conduct background checks and verify housing status and educational qualifications, withdraw provisional authorization for offences, promote minority police recruitment, as well as to deploy the SBS. The UNMiBH programmes, under the assistance role as defined by Annex 11, are laying the groundwork for the EU Police Mission (PM),

which will take over on 1 January 2003. The EU PM will begin the next phase of BiH police reform through mentoring, monitoring, and inspection of police administrations and personnel in accordance with European policing standards. Further to my Decision of 30 April 2002 prioritizing minority police returnees in the implementation of property laws, I expect the recent constitutional amendments in both Entities to be implemented in such a way as to further facilitate minority police recruitment.

53. Over the past three years, however, the importance of the overall establishment of the rule of law and in particular, an efficient, modern judiciary has become increasingly obvious. War crimes prosecutions have suffered due to the inadequacy of the domestic system. Judicial ineffectiveness even undermines police reform, and in several cases, police have refused to act against high-profile criminals because they know that the offenders will be quickly released and will never be effectively prosecuted. The judicial system of BiH has not merely suffered the ravages and disruption of war and immediate post-war, but also emerged from a communist culture in which there was no separation of powers and no tradition of judicial independence. Furthermore, judges and prosecutors continue to lack the capacity to deal with complex cases, especially those involving corruption or other economic crimes (such as Hercegovacka Banka, mentioned above).

54. During the first part of my mandate, the IC's efforts in the field of judicial reform focussed on issues such as the establishment of a State Court, the law creating training institutes or the Judicial and Prosecutorial Service Laws. The latter laws, which were adopted in 2000, increased the salaries of the judges in an effort to strengthen their independence while creating commissions to review the judges and prosecutors. However, as these efforts were not enough to establish the rule of law in the BiH judicial practice, in November 2000 I established the Independent Judicial Commission (IJC), - successor to UNMIBH's Judicial System Assessment Program (JSAP)- and in March 2001 I gave it a comprehensive mandate to deal with all aspects of judicial and prosecutorial reform.

55. The work of the IJC pointed at structural shortcomings in both the judicial disciplinary system and the legal framework. Therefore, on 28 February 2002 the PIC Steering Board (SB) at Political Directors' level endorsed my robust programme of action. At its 7 May 2002 meeting, the SB welcomed my plan to ensure completion of the first phase, which involves de-politicizing the regulation of the legal profession and by ensuring the establishment of training institutes in both entities coordinated by the High Judicial Council. The establishment of a single High Judicial Council will lay the foundations for further reform of the judiciary, such as the re-structuring of the court and prosecutorial systems.

Wolfgang Petritsch
The High Representative
13 May 2002